



The Real Estate ANALYST

FEBRUARY 24
1939

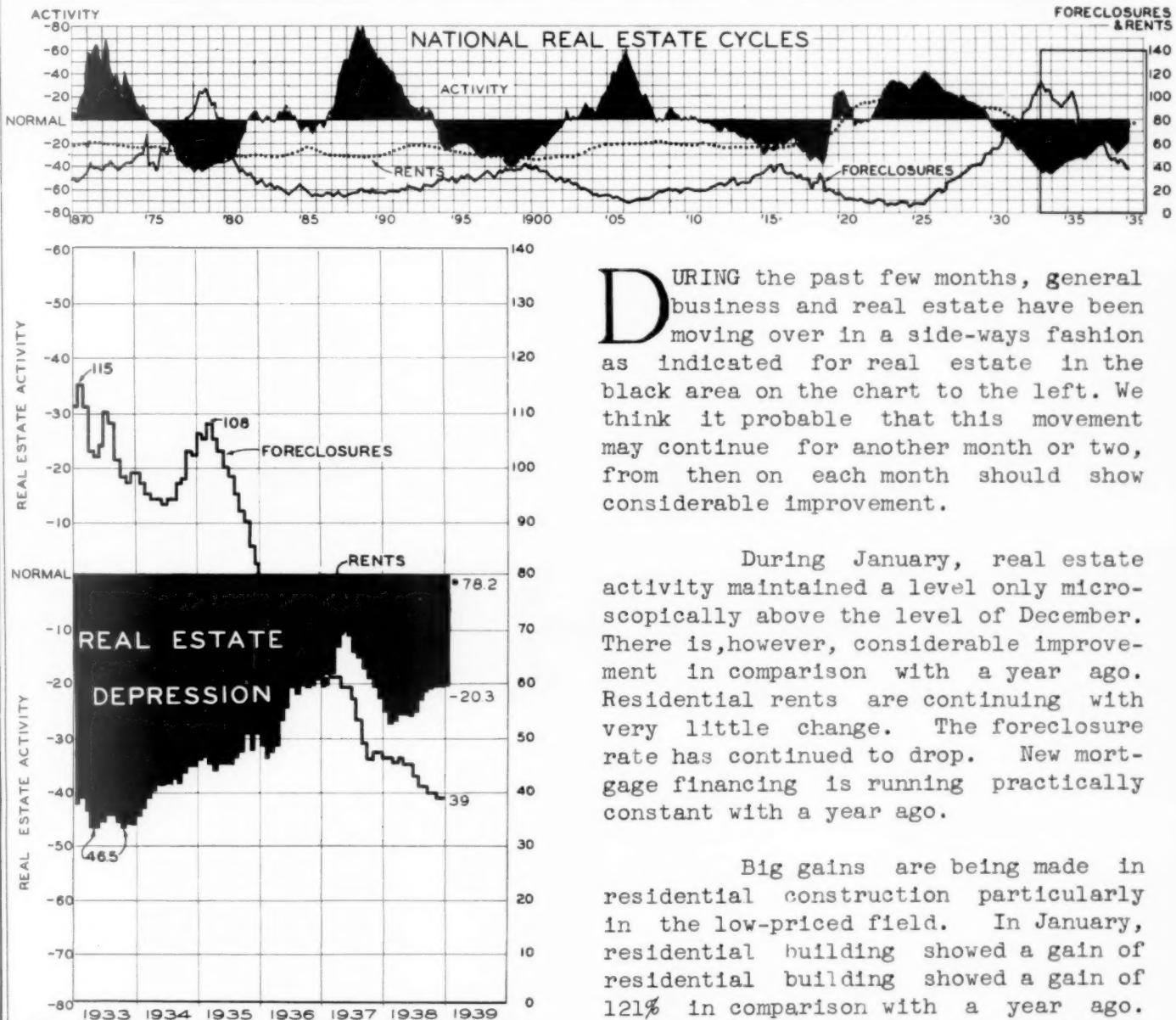
Roy Wenzlick
Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends... Constantly measuring and reporting the basic economic factors responsible for changes in trends and values.... Current Studies.... Surveys.... Forecasts

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

VOLUME VIII



The level of residential rents, indicated by the dotted red line, is charted, not as a percentage above or below a normal line, but as an index (1926=100) from the bottom of the chart and is read on the right hand scale, as is the index of the number of foreclosures per month per 100,000 families, shown by the solid red line. The lower chart is the last six years of the upper chart enlarged to show monthly fluctuations.

DURING the past few months, general business and real estate have been moving over in a side-ways fashion as indicated for real estate in the black area on the chart to the left. We think it probable that this movement may continue for another month or two, from then on each month should show considerable improvement.

During January, real estate activity maintained a level only microscopically above the level of December. There is, however, considerable improvement in comparison with a year ago. Residential rents are continuing with very little change. The foreclosure rate has continued to drop. New mortgage financing is running practically constant with a year ago.

Big gains are being made in residential construction particularly in the low-priced field. In January, residential building showed a gain of residential building showed a gain of 121% in comparison with a year ago. February will probably show a gain almost as large. Building material prices increased by 0.1% during the month, but they are still 2.6% below a year ago. Hotel building bonds showed no change, and office building bonds showed a slight drop. Both, however, are considerably above a year ago.

GENERAL BUSINESS INDEXES

THE charts to the right show various barometers of general business in the United States, selected for their diversity and for their importance in the various fields of industrial activity. It will be noticed that 1938 during the first part of the year was very much below 1937 in the greater percentage of these charts, but that as the year progressed, 1938 started gaining, and by the end of the year it had passed in many cases the 1937 figures. These two years had reverse trends; in practically all instances 1937 had a downward trend, while in 1938, the trend was upward, gaining very rapidly in the latter part of the year.

1939 is starting out considerably better than 1938 in most cases but still slightly below 1937. From the present general outlook, we are under the impression that as the year progresses, 1939 should show additional strength, and it may be that as we get into the latter half of the year, 1939 will be passing the 1937 figures.

CHARACTERISTICS OF THE REAL ESTATE CYCLE

THE long chart on pages 38 to 41 in this report shows the relationship of real estate booms and depressions to fluctuations in general business from 1795 to February 1, 1939. This chart is somewhat similar to the one which appeared in our reports in March, 1938, but a number of additional items have been added.

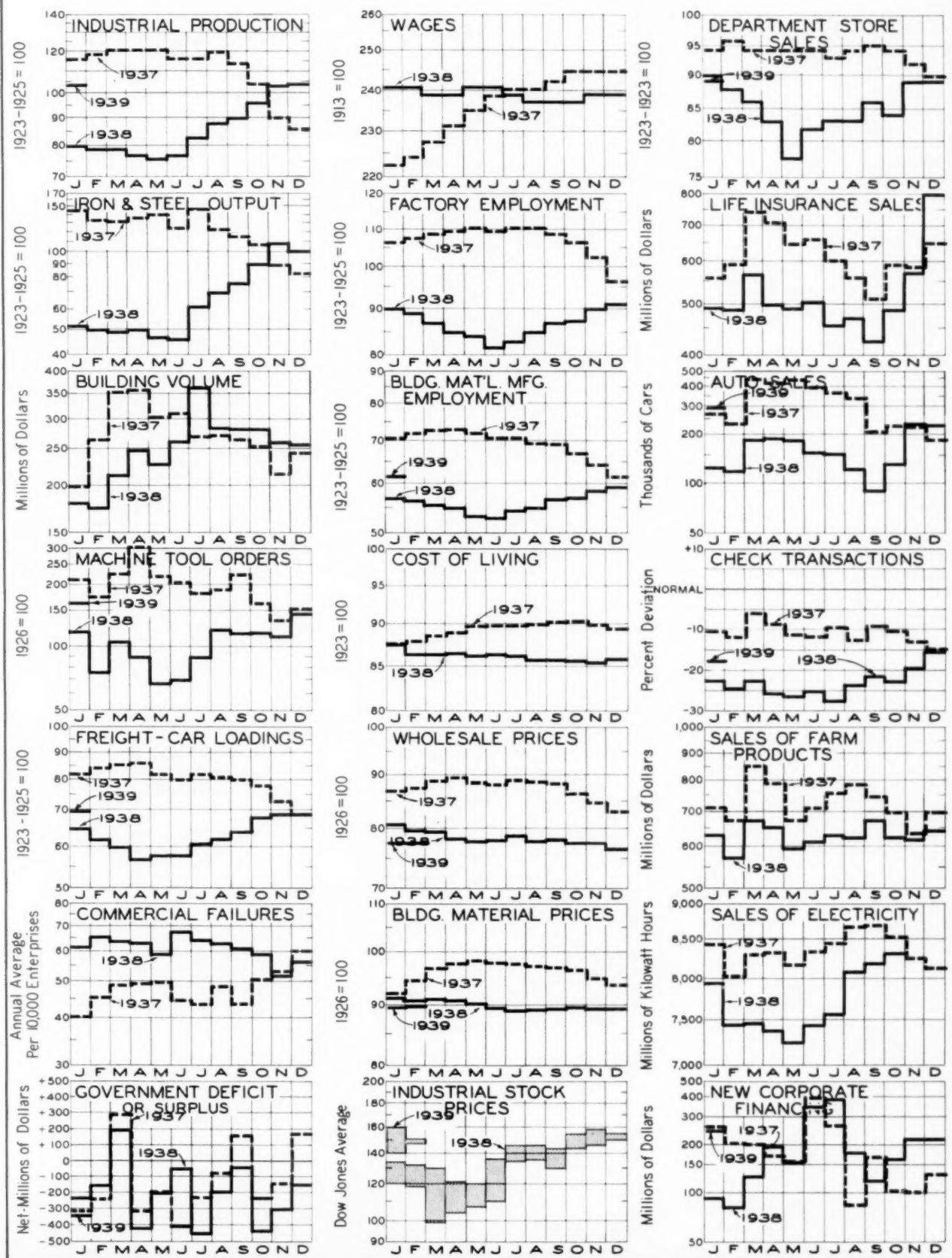
The portion of the chart prior to 1870 has been estimated from incomplete data. From old newspapers, magazines and books we have found frequent references to real estate booms and depressions in the past. We find, for instance, that in 1795 frequent references were made to land speculation as an integral part of the boom which was then under way. This boom seems to have collapsed three or four years later, and until 1816 we find no further references to real estate boom conditions. In that year again, however, we find references to heavy speculation in land. This period seems to have lasted for a longer time in the South than it did in the North, but by 1819, real estate values were shrinking quite rapidly. We find no further general allusions to real estate until 1835, when another period of active land speculation began. The panic of 1837 caused speculation to drop very rapidly with a slight revival in 1839. The next big real estate boom in the United States was in 1852 culminating in the panic of 1857. We find no further references until the early seventies, as shown on the black portion of the chart.

Considerable apologies are offered for the early part of this chart. Our outlining of these booms and depressions is purely an estimate based only on the general statements of conditions which we have read. They are not measured in any way, nor do we even know that all of them were national in scope, but we are positive that real estate booms occurred at substantially the periods shown. We can find no authentic records of any other boom during this interval.

REAL ESTATE ANALYSTS, INC., hopes to reconstruct the real estate
(Continued to page 36)

BUSINESS BAROMETERS

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CHARACTISTICS OF THE REAL ESTATE CYCLE (Continued from page 34)

past on a measured basis over the entire period of this chart, but it will be many years before our work on this can be completed, as we must first painstakingly measure real estate activity month by month in the principal cities. We can offer no assurance that when this work is completed, the areas will even closely resemble the peaks which we have now estimated on the only data available. We are positive, however, that the peaks are approximately located, and this is the primary thing of interest to us at the present time.

It might be well to repeat here the following general principles which we consider fundamental in securing perspective on real estate:

1. **THE REAL ESTATE CYCLE IS MORE EXTREME THAN THE GENERAL BUSINESS CYCLE.** Both real estate and business cycles are drawn to the same scale on our chart. It is not unusual for it to go 50% or 60% on either side of the normal line. On the other hand, the general business booms and depressions have rarely gone more than 20% above or below normal. Our big depression during the last few years is the one outstanding exception.
2. **THE REAL ESTATE CYCLE IS FAR MORE REGULAR IN ITS SWING THAN THE GENERAL BUSINESS CYCLE.** In order to emphasize that regularity, a red curve and red areas are superimposed on our chart. This red curve is an idealized cycle of eighteen years in length swinging up in eight years and down in ten, eighteen years from peak to peak, and eighteen years from valley to valley. It will be noticed that this curve has outlined in a general fashion all of the booms and depressions we have had in real estate in the United States, and it looks as if it may repeat again during the forties.
3. **THE REAL ESTATE CYCLE IS VERY MUCH LONGER THAN THE GENERAL BUSINESS CYCLE.** Figures superimposed on our chart show the length in years from the peak of one real estate boom to the peak of the next, and it will be noticed that the period from boom to boom has never exceeded twenty years, and has never been less than sixteen years. The average period over the entire stretch from 1795 to the present has been 18.3 years.
4. **A TRANSITION PERIOD FOLLOWS EACH REAL ESTATE DEPRESSION BEFORE WE ENTER THE FOLLOWING BOOM.** This is quite apparent in the measured part of our chart from 1870 to the present. It will be noticed that after the big depression of the seventies, real estate hovered along the normal line for a period of years before the real estate boom of the late eighties developed. After the depressions of the nineties, a transition period lasted for several years until the real boom, starting in 1904, got under way. The same thing happened again in the period from 1918 to 1922 in which a false start was made, dropping back to the normal line and then the real boom developed. This seems to us a rather typical pattern, and we are inclined to believe that we are now in

this transition period, which will certainly last through 1939 and may last through 1940 and 1941. Sooner or later, however, we expect a rather rapid boom development similar to the boom developments in the past.

In addition to the real estate booms and depressions shown on this chart are the following curves explained briefly below:

MORTGAGE FORECLOSURE RATES The solid red line on the upper chart shows the fluctuations in the number of urban foreclosures per month for each 100,000 population. We have not been able as yet to carry this line earlier than 1870.

RATE OF NEW BUILDING The black line starting in 1830 and extending to the present time shows the volume of new building per capita in the United States, and is based on the figures prepared by John R. Riggleman. It will be noticed that it duplicates rather closely the real estate booms and depressions.

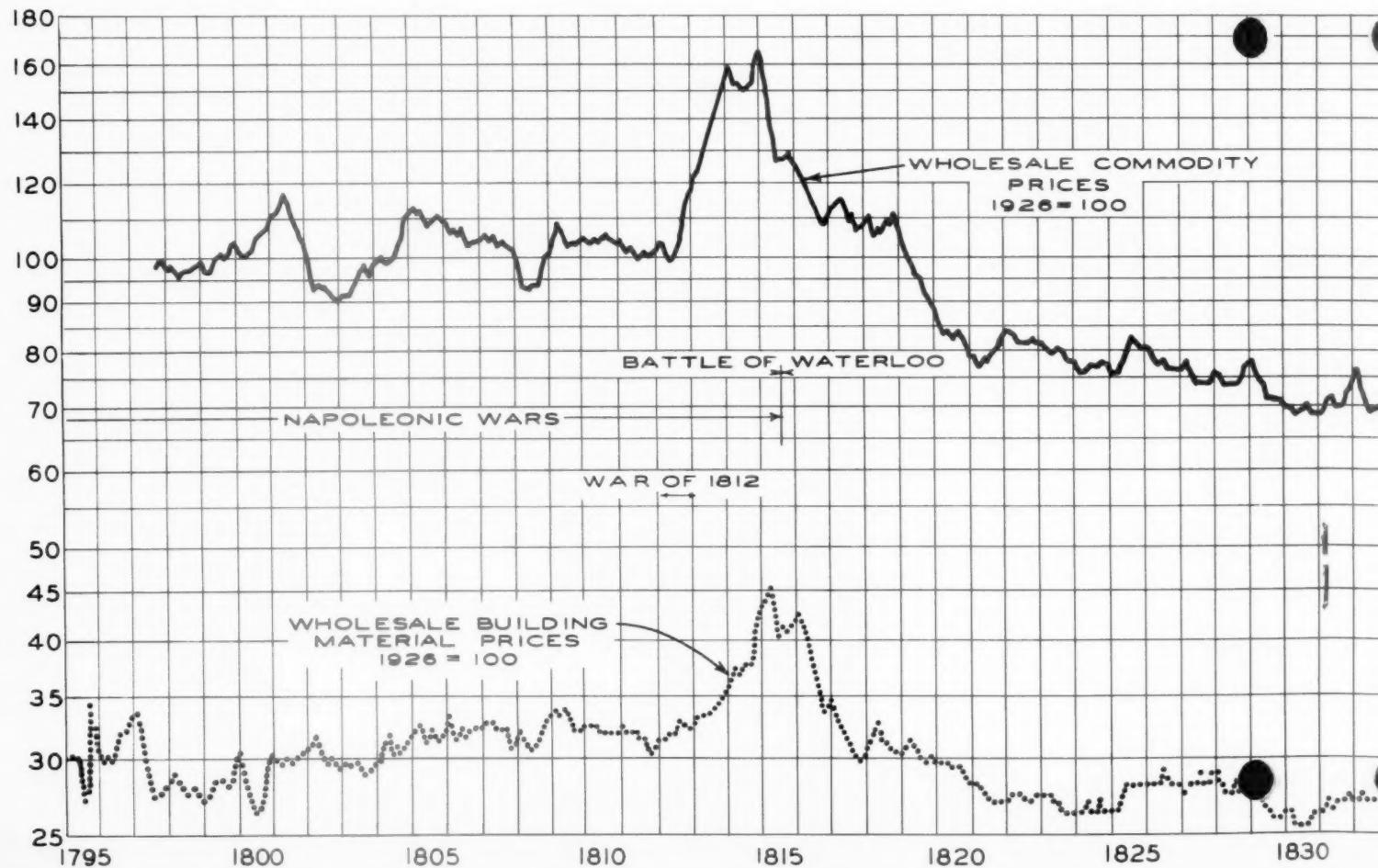
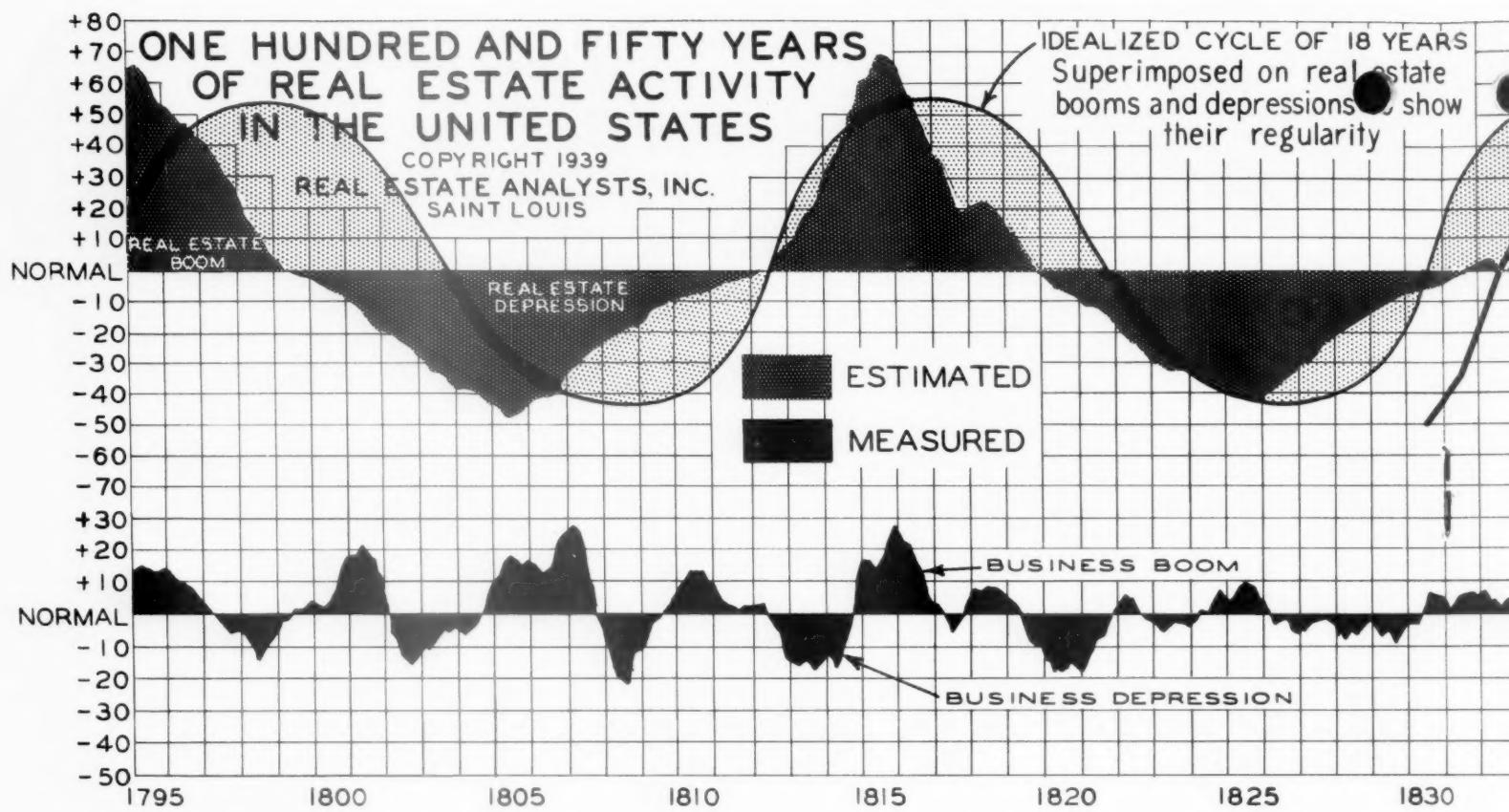
NEW YORK MORTGAGE INTEREST RATES The solid red line on the upper chart shows the fluctuations in average interest rates on real estate mortgages made in New York City. The mortgage interest rates in New York City are lower than they are in other parts of the country, due to the large amounts of capital seeking employment in that area.

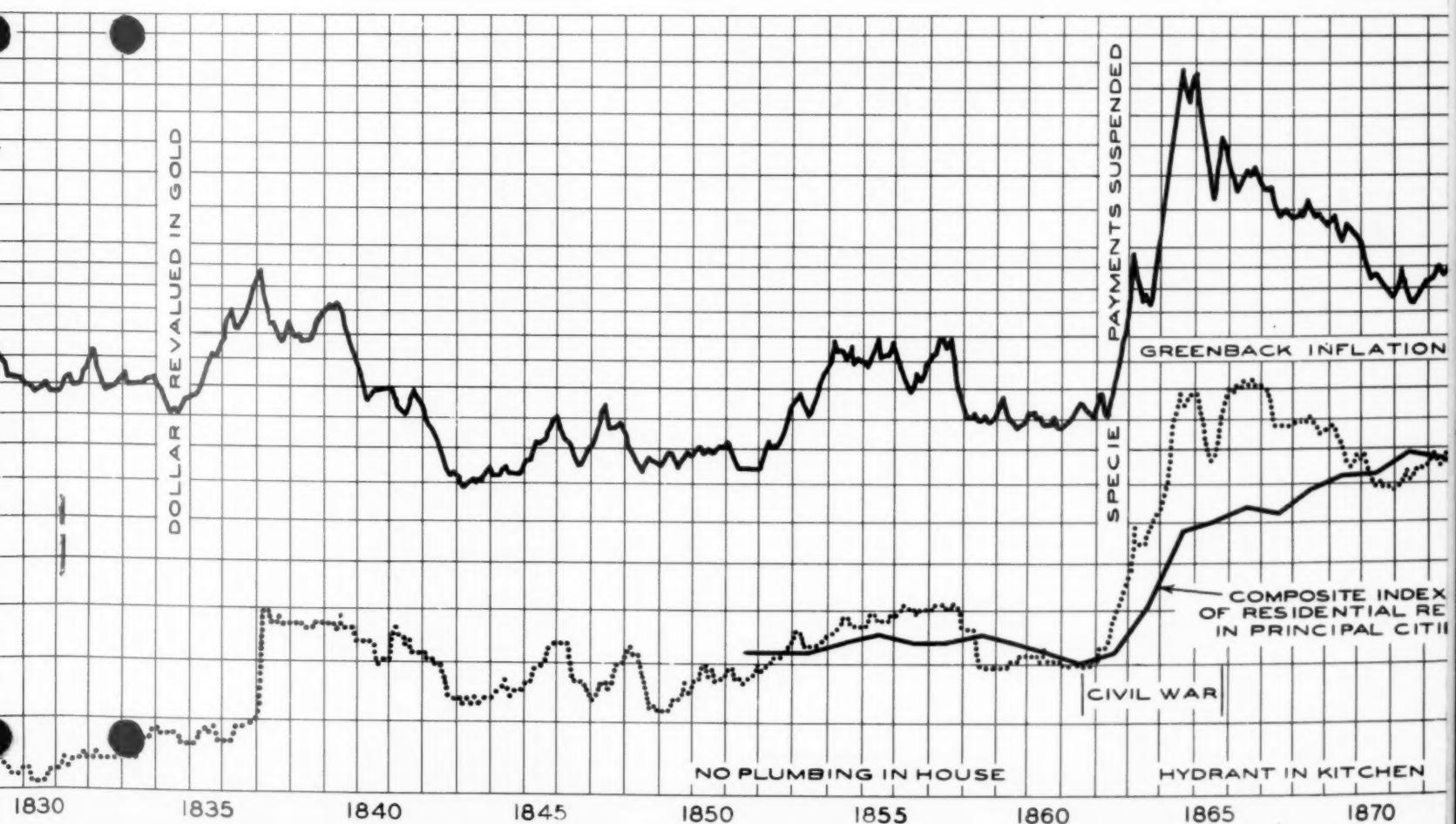
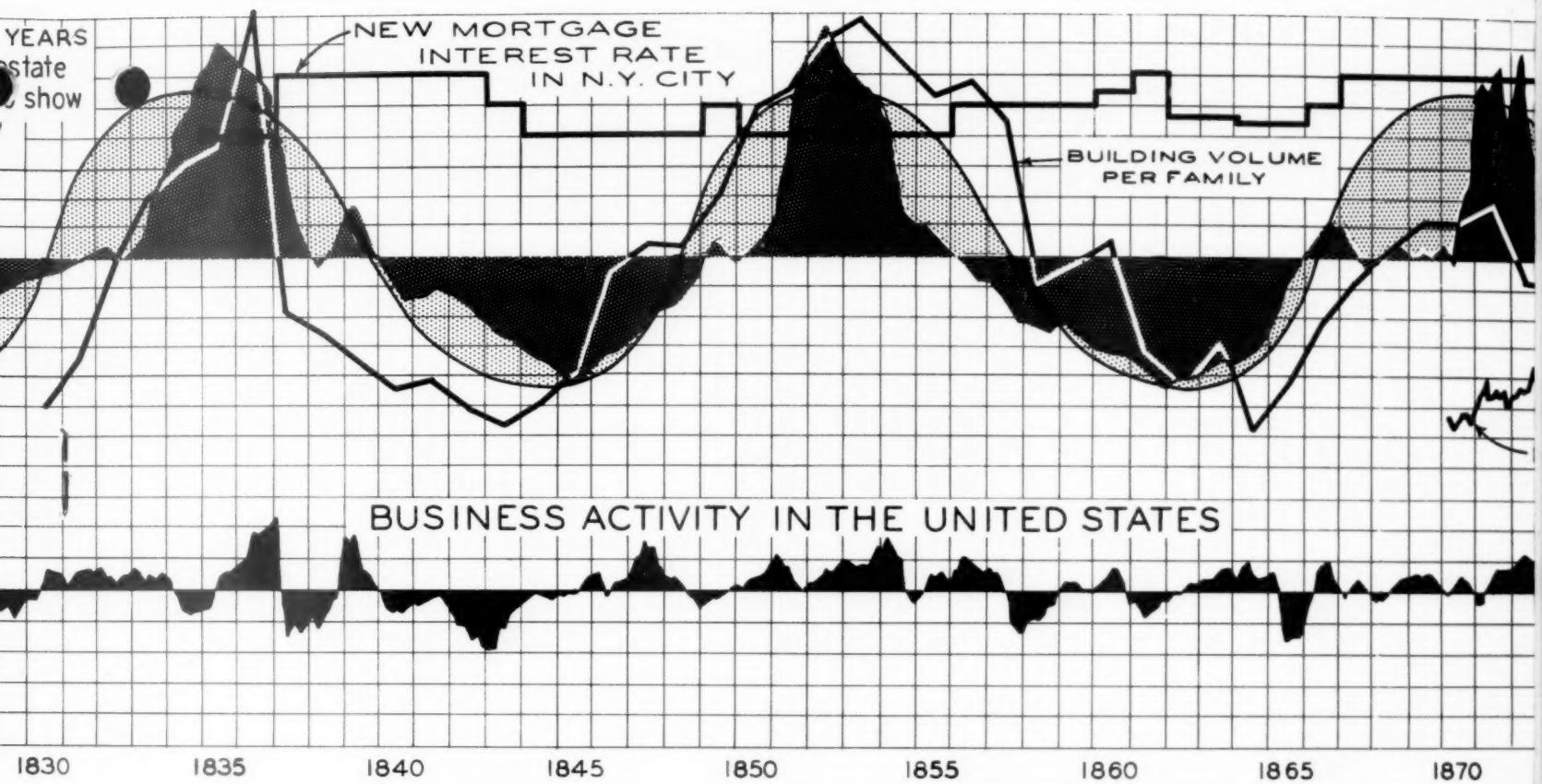
RESIDENTIAL RENTS The red line on the middle chart shows fluctuations in residential rents from 1851 to the present. We believe that this line is quite accurate in the period prior to 1880, and in the period from 1900 on. The charting of the intervening years is based on an insufficient number of cities and will probably be subject to some correction.

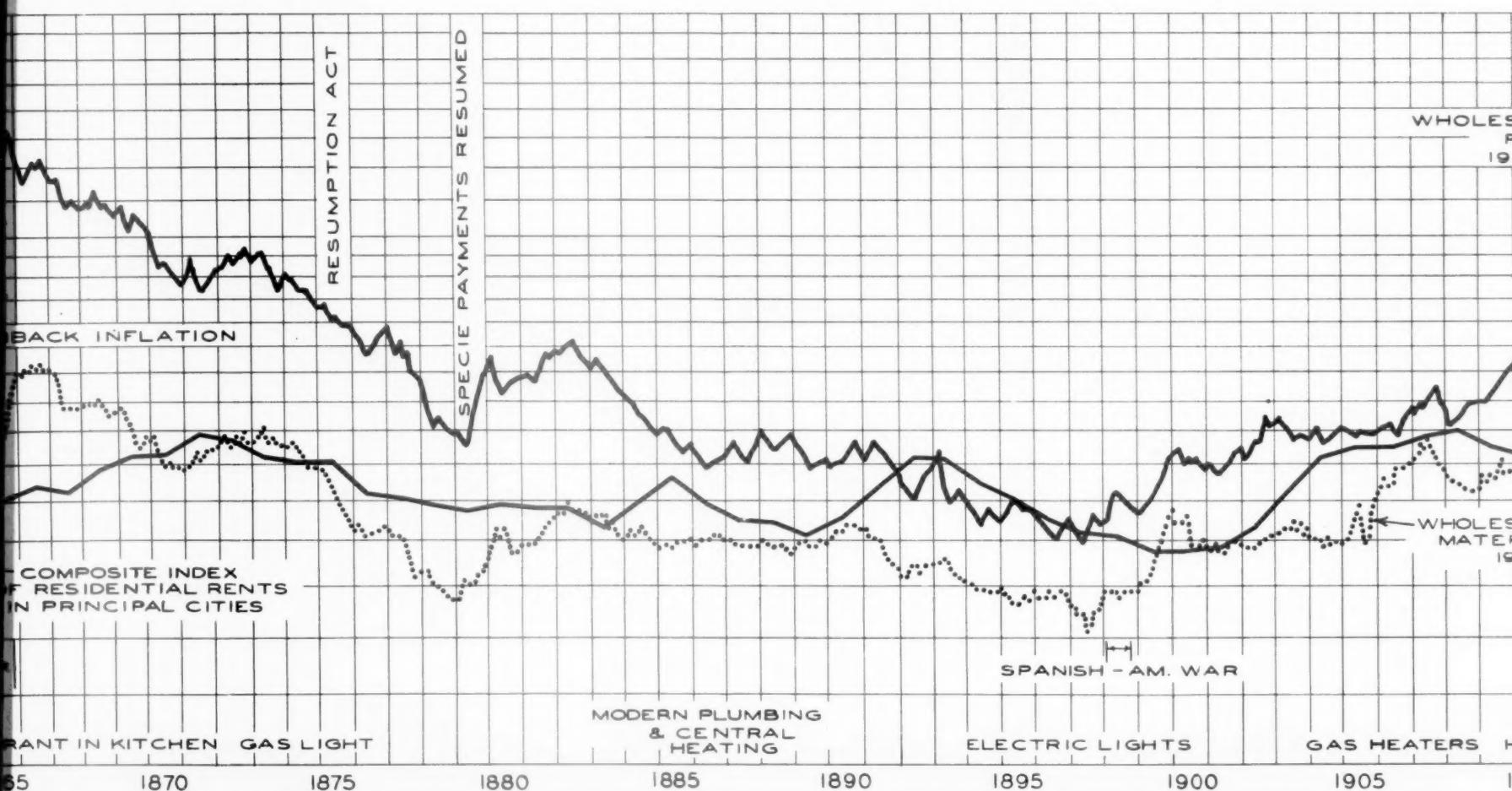
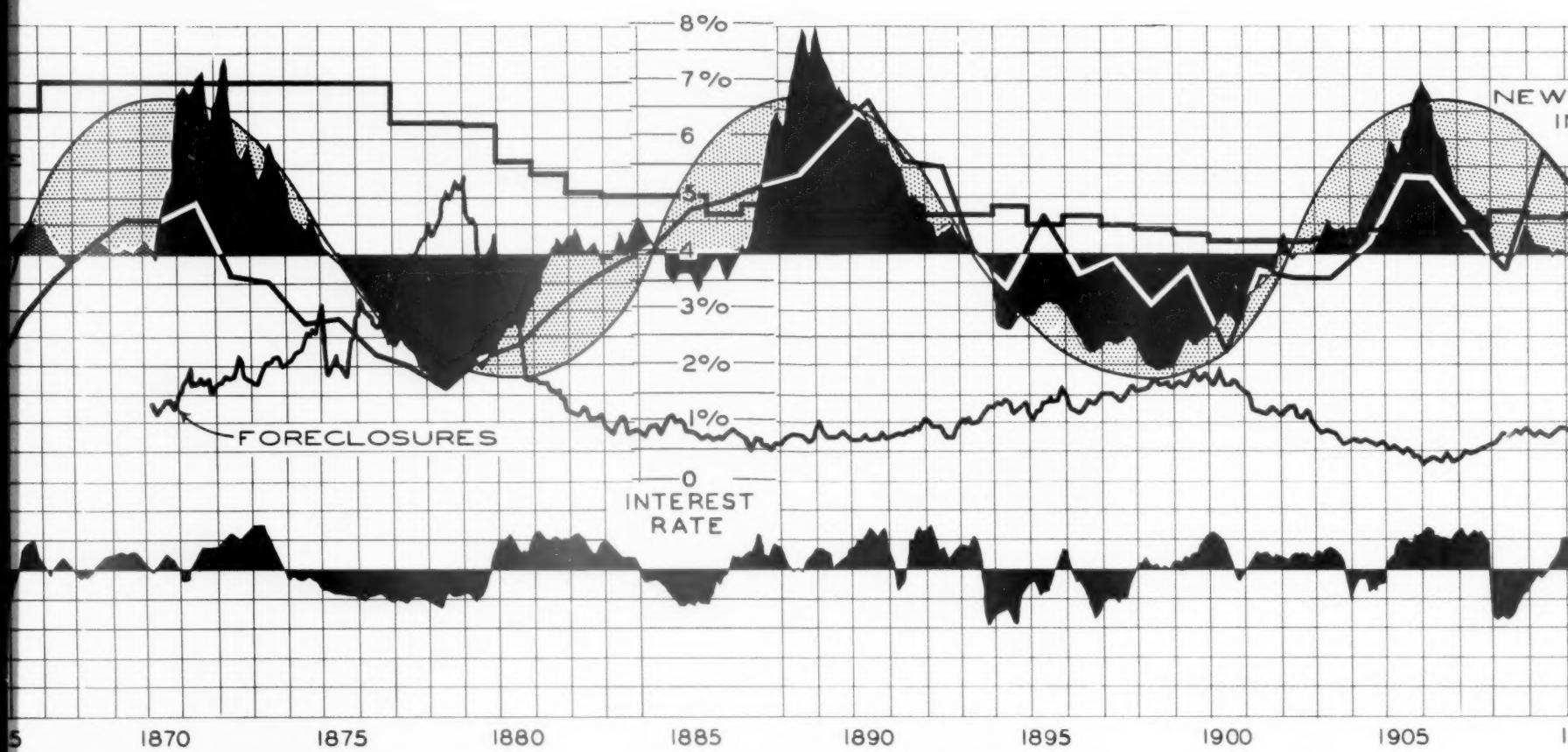
BUILDING MATERIAL PRICES The dotted black line in the middle chart shows the fluctuations of wholesale building material prices. It will be noticed that as a general thing in the past, building material prices have increased before rents have increased.

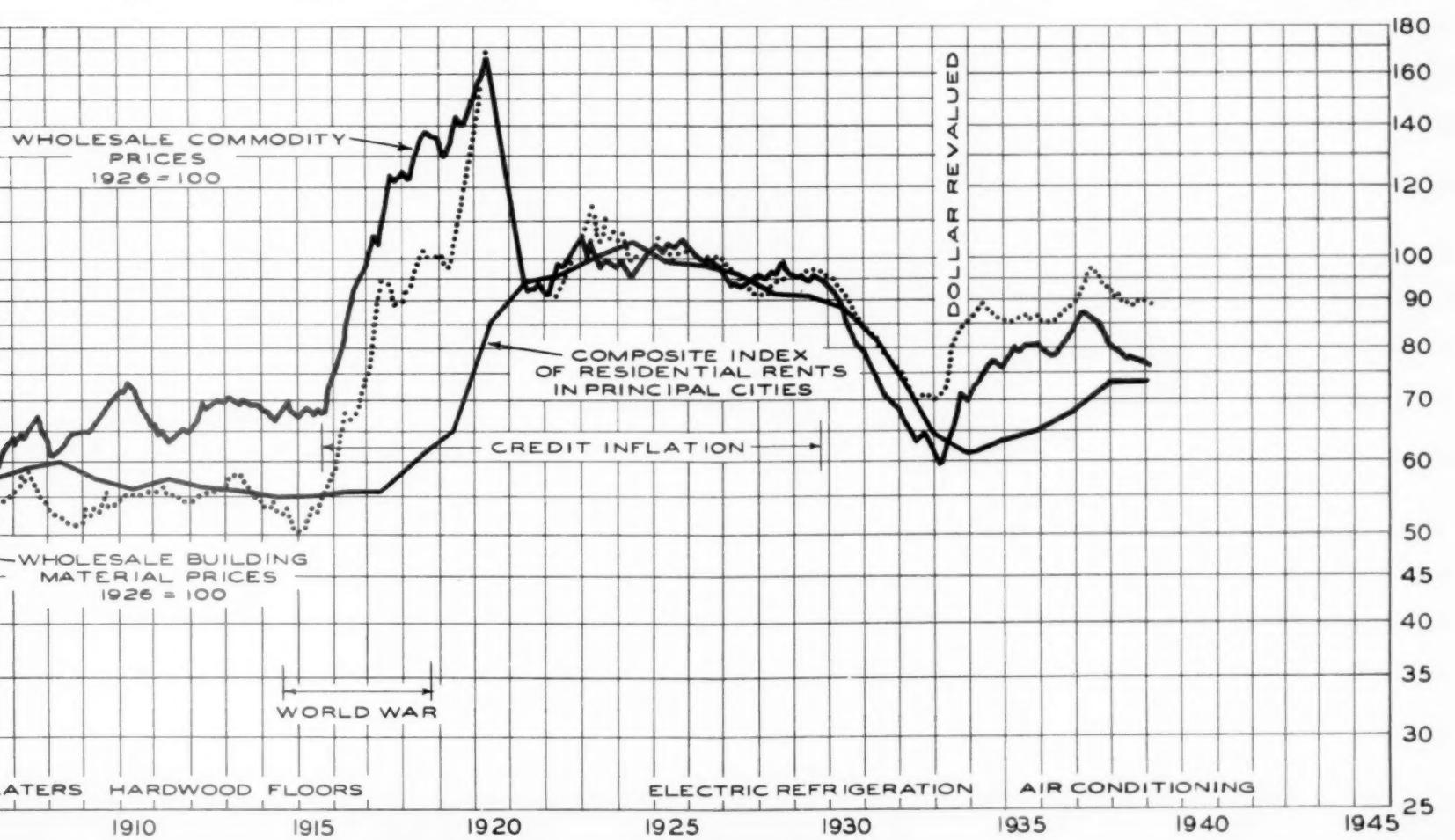
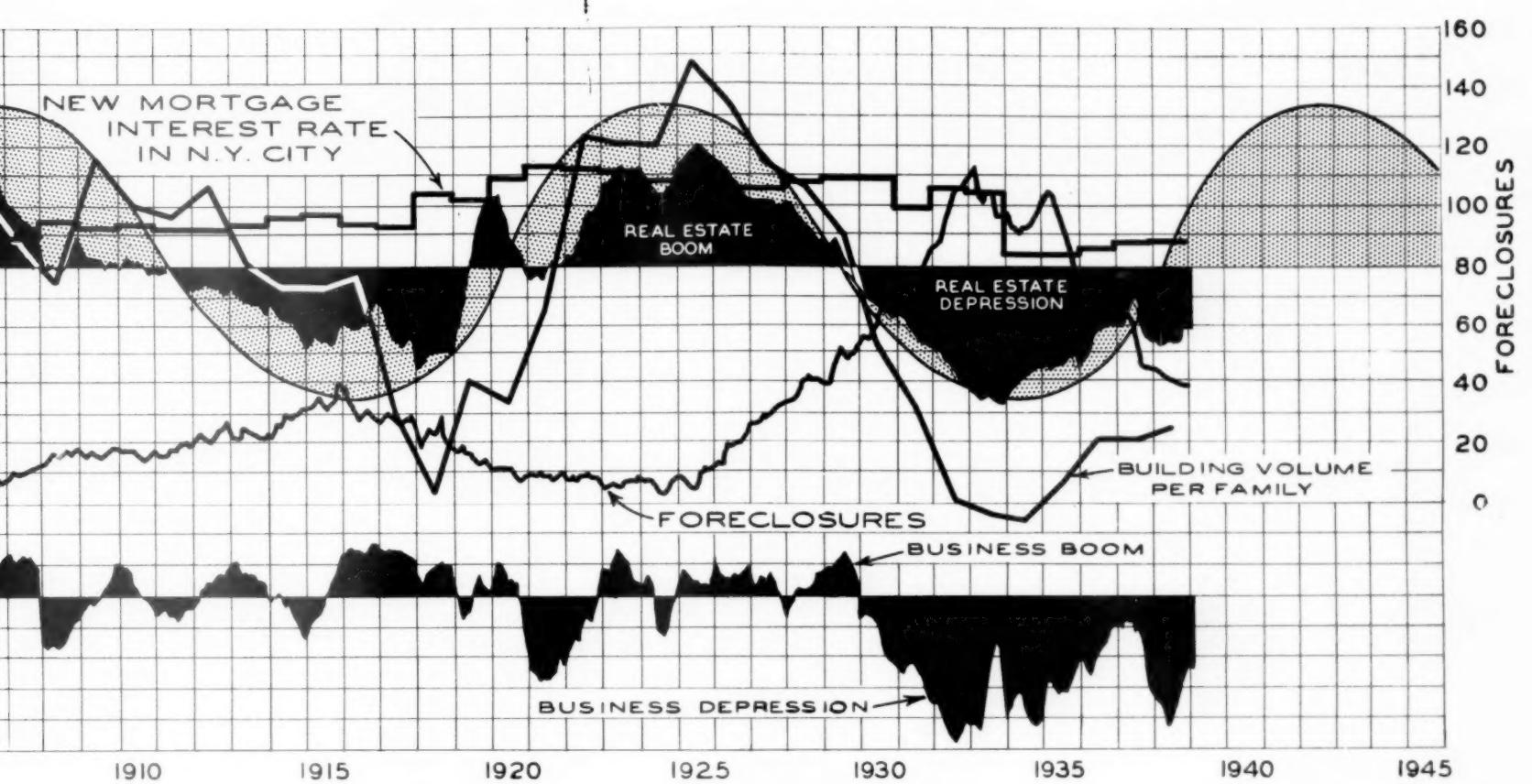
WHOLESALE COMMODITY PRICES The solid black line in the middle chart shows the fluctuations in wholesale prices of all types. It will be noticed that the fluctuations in general commodity prices and in building material prices are quite similar in many respects, but over the long period, building material prices have increased by a far greater percentage than general commodity prices.

GENERAL BUSINESS BOOMS AND DEPRESSIONS The black areas on the lower part of the upper chart show general business booms and depressions as charted for the United States by Leonard C. Ayres of the Cleveland Trust Company. This chart is drawn to the same scale as the chart just above it showing real estate fluctuations, to emphasize the fact that real estate normally moves in a far more extreme fashion than does general business. It will also be noticed that there is very little regularity in the general business cycle in contrast with the regularity shown in the real estate cycle.

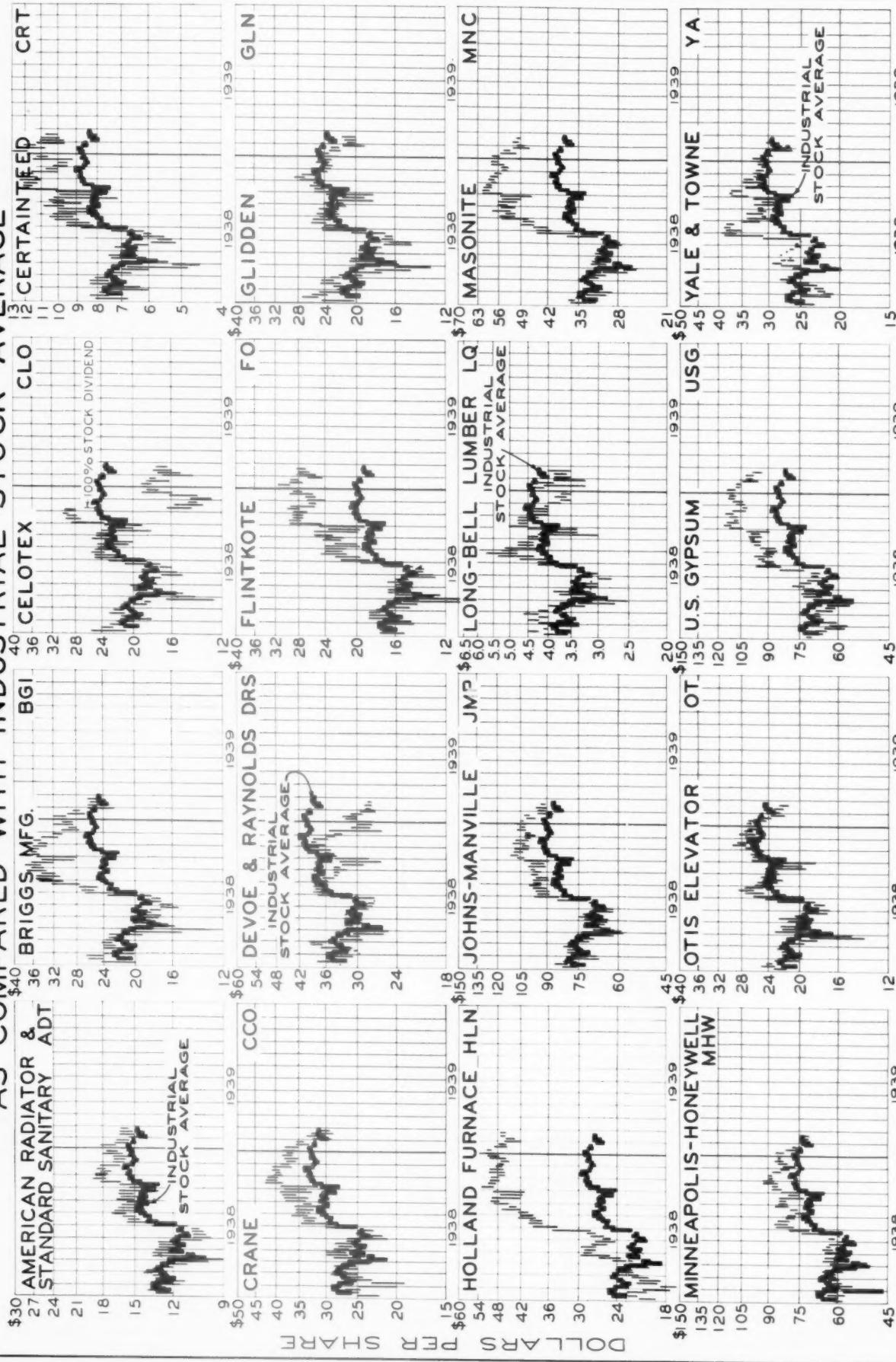


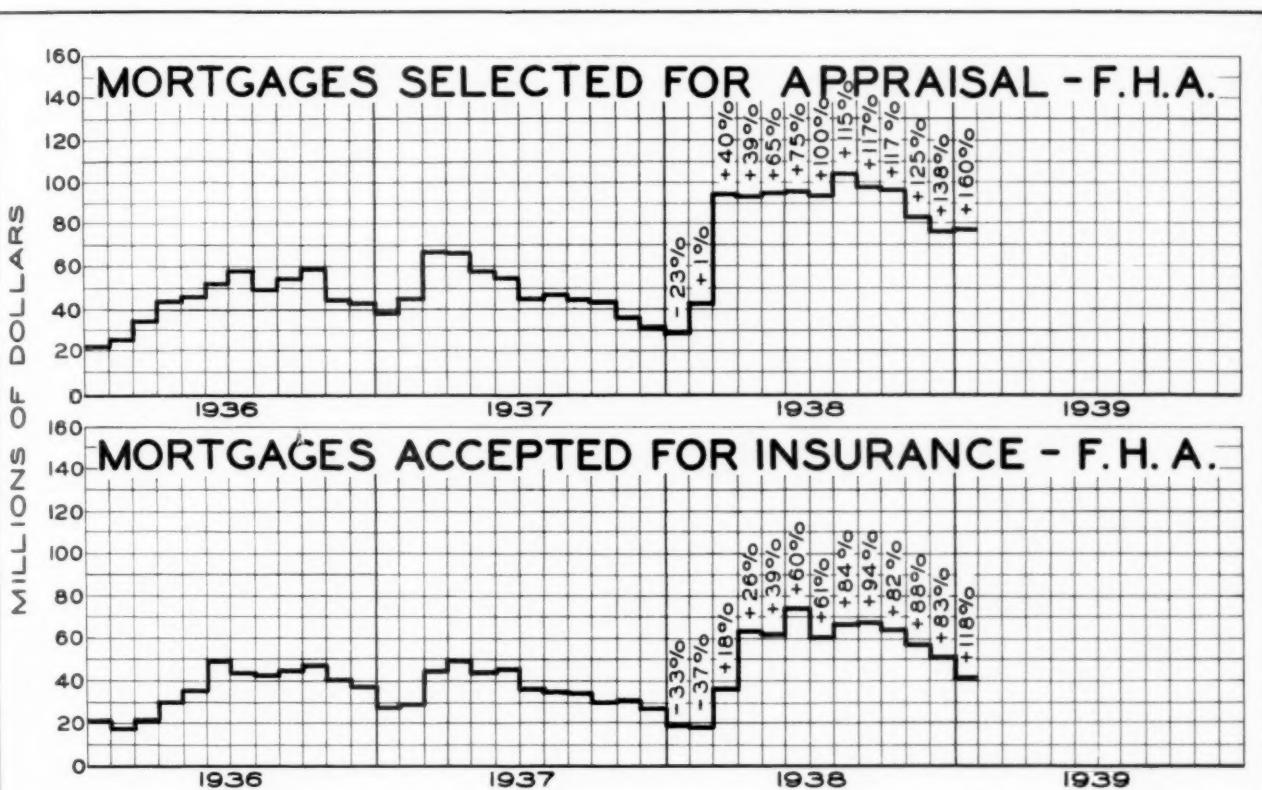






FLUCTUATIONS OF BUILDING MATERIAL STOCKS AS COMPARED WITH INDUSTRIAL STOCK AVERAGE





THE charts above show the experience of the Federal Housing Administration from January, 1936, to the present. The top chart shows mortgages selected for appraisal, the first step in securing an FHA loan; and the lower chart shows mortgages accepted for insurance. The top chart has some forecasting qualities, as it advances before the lower chart advances.

The figures in red over each month's curve show the percentage of that month above the corresponding month of a year ago.

It will be noticed that in the month of January, the percentage increase in comparison with a year ago is greater than it has been at any time in the past for both charts. This would indicate that new construction can be expected to continue at a very rapid rate in the residential field, as a large part of the FHA loans have been made for new construction.

BUILDING MATERIAL STOCKS

THE charts opposite show the fluctuations in sixteen building material stocks listed on the New York Stock Exchange during 1938 and for January and the first part of February of 1939. The red areas superimposed on each chart represent the fluctuations of the Dow-Jones Industrial Stock Average. This comparison makes it possible to tell immediately whether any given stock has behaved better or worse than the industrial average.

THE REAL ESTATE ANALYST INDEX OF RESIDENTIAL RENTS

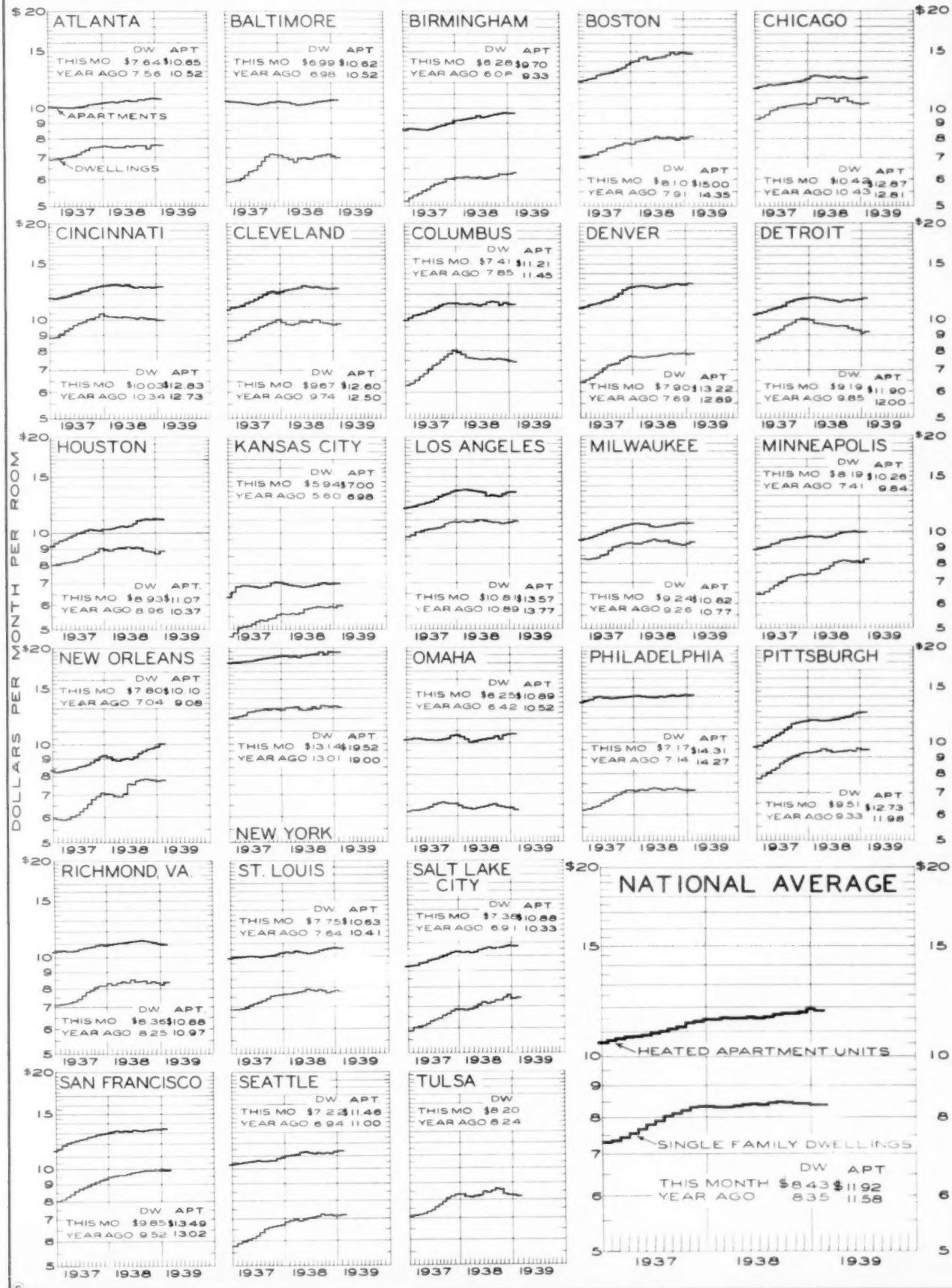
THE table below shows the residential rent figures charted by months on the page opposite. This is the revised index of residential rents which appeared in the Real Estate Analyst for the first time in the February issue. All rents are expressed in dollars per month per room. This makes possible a comparison of

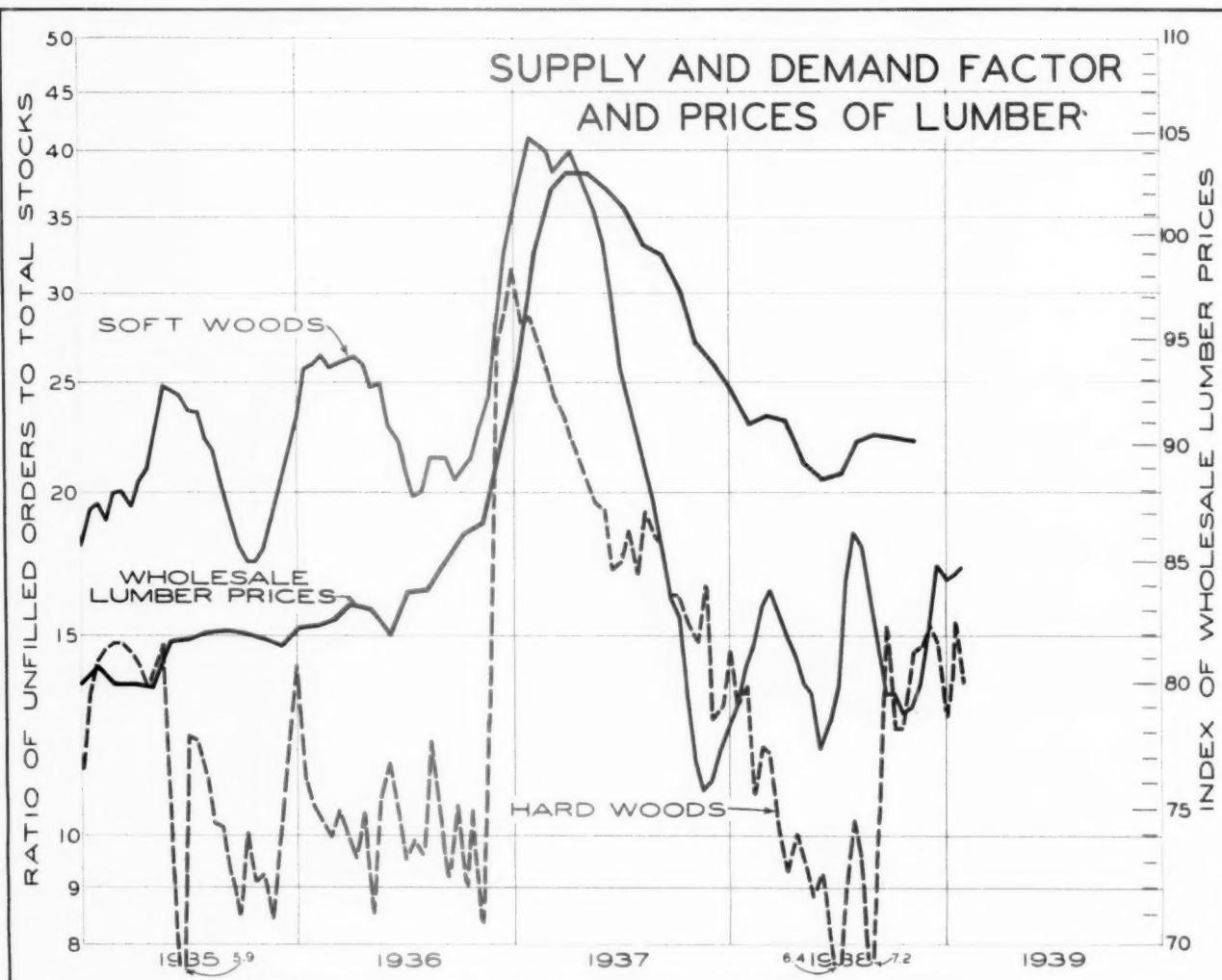
rent levels between different cities, and in the same city between heated and unheated units. The twenty-six cities selected are typical cities scattered from coast to coast. The method of computing this index is described on page 889 in the February, 1938, Real Estate Analyst.

SINGLE FAMILY DWELLINGS

	1938															
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
National Index	\$8.33	\$8.36	\$8.36	\$8.35	\$8.35	\$8.37	\$8.42	\$8.47	\$8.45	\$8.50	\$8.52	\$8.50	\$8.46	\$8.46	\$8.43	\$8.43
Atlanta	7.56	7.58	7.60	7.56	7.53	7.53	7.53	7.63	7.55	7.64	7.64	7.64	7.49	7.66	7.67	7.64
Baltimore	7.18	7.15	7.10	6.98	6.90	6.77	6.97	6.98	6.96	6.96	7.03	7.05	7.06	7.14	7.02	6.99
Birmingham	6.02	6.07	6.08	6.08	6.14	6.09	6.09	6.11	6.06	6.08	6.10	6.15	6.25	6.25	6.25	6.28
Boston	7.70	7.68	7.65	7.91	7.93	7.95	8.03	8.18	8.08	8.08	8.20	8.09	7.93	8.08	8.09	8.10
Chicago	10.32	10.35	10.30	10.43	10.69	10.67	10.69	10.67	10.48	10.72	10.73	10.56	10.42	10.38	10.37	10.42
Cincinnati	10.34	10.51	10.42	10.34	10.29	10.27	10.33	10.28	10.25	10.22	10.28	10.22	10.14	10.10	10.03	10.03
Cleveland	9.94	10.01	9.92	9.74	9.72	9.86	9.97	9.97	9.95	10.02	10.02	9.90	9.83	9.70	9.65	9.67
Columbus	7.91	8.03	7.98	7.85	7.71	7.70	7.69	7.64	7.64	7.69	7.65	7.66	7.58	7.52	7.46	7.41
Denver	7.65	7.75	7.73	7.69	7.70	7.71	7.75	7.75	7.80	7.85	7.87	7.86	7.87	7.90	7.88	7.90
Detroit	10.15	10.12	10.01	9.85	9.75	9.72	9.61	9.58	9.52	9.57	9.53	9.45	9.32	9.30	9.15	9.19
Houston	8.86	9.04	8.98	8.96	9.03	9.06	9.06	9.11	9.08	9.11	9.08	8.95	8.87	8.86	8.70	8.93
Kansas City	5.48	5.60	5.63	5.60	5.62	5.61	5.63	5.80	5.81	5.85	5.90	5.88	5.86	5.90	5.86	5.94
Los Angeles	10.81	10.88	10.86	10.89	10.87	10.87	10.94	11.00	10.92	10.87	10.80	10.80	10.72	10.73	10.80	10.81
Milwaukee	9.26	9.27	9.25	9.26	9.31	9.41	9.50	9.42	9.38	9.41	9.33	9.28	9.22	9.16	9.20	9.24
Minneapolis	7.40	7.39	7.46	7.41	7.47	7.64	7.70	7.86	8.04	8.13	8.14	8.11	8.07	8.10	8.10	8.19
New Orleans	6.98	7.13	7.07	7.04	6.98	6.92	7.04	7.57	7.55	7.78	7.85	7.90	7.87	7.84	7.78	7.80
New York	13.00	12.99	12.92	13.01	13.02	13.05	12.97	12.87	12.98	13.15	13.00	13.33	13.23	13.19	13.17	13.14
Omaha	6.58	6.58	6.50	6.42	6.40	6.36	6.42	6.47	6.48	6.50	6.53	6.47	6.41	6.36	6.36	6.25
Philadelphia	7.13	7.13	7.11	7.14	7.12	7.22	7.24	7.22	7.22	7.22	7.28	7.24	7.22	7.20	7.17	
Pittsburgh	9.25	9.29	9.23	9.33	9.45	9.51	9.48	9.36	9.37	9.40	9.44	9.48	9.46	9.58	9.51	9.51
Richmond	8.15	8.15	8.29	8.25	8.30	8.39	8.30	8.50	8.37	8.40	8.41	8.36	8.40	8.33	8.22	8.36
Saint Louis	7.58	7.59	7.60	7.64	7.70	7.73	7.81	7.92	7.91	7.86	7.90	7.86	7.76	7.78	7.80	7.75
Salt Lake City	6.82	6.92	6.92	6.91	6.92	6.99	7.09	7.28	7.19	7.27	7.30	7.30	7.47	7.58	7.37	7.38
San Francisco	9.31	9.41	9.50	9.52	9.55	9.55	9.59	9.71	9.73	9.77	9.80	9.80	9.80	9.80	9.83	9.85
Seattle	6.70	6.72	6.85	6.94	6.95	6.90	6.99	7.01	7.06	7.12	7.25	7.22	7.24	7.22	7.20	7.22
Tulsa	8.25	8.37	8.40	8.24	8.23	8.27	8.34	8.50	8.44	8.53	8.69	8.65	8.40	8.32	8.30	8.20
National Index	11.40	11.49	11.58	11.58	11.67	11.63	11.63	11.65	11.64	11.67	11.80	11.82	11.82	11.88	12.00	11.92
Atlanta	10.37	10.40	10.45	10.52	10.53	10.50	10.53	10.60	10.52	10.57	10.62	10.60	10.65	10.68	10.70	10.65
Baltimore	10.52	10.52	10.57	10.52	10.51	10.43	10.37	10.38	10.40	10.43	10.53	10.55	10.60	10.62	10.62	
Birmingham	9.03	9.14	9.26	9.33	9.35	9.41	9.42	9.55	9.48	9.51	9.58	9.65	9.68	9.70	9.70	
Boston	13.65	13.91	14.20	14.35	14.52	14.62	14.49	14.53	14.55	14.62	14.81	15.07	14.99	15.15	15.11	15.00
Chicago	12.43	12.46	12.60	12.81	12.90	12.83	12.82	12.71	12.82	12.77	12.78	12.71	12.71	12.61	12.72	12.87
Cincinnati	12.60	12.67	12.68	12.73	12.82	12.81	12.80	12.85	12.77	12.74	12.83	12.73	12.75	12.71	12.81	12.83
Cleveland	12.33	12.30	12.42	12.50	12.54	12.62	12.73	12.95	12.80	12.78	12.82	12.73	12.66	12.51	12.58	12.60
Columbus	11.46	11.46	11.46	11.45	11.45	11.48	11.44	11.42	11.48	11.58	11.61	11.51	11.35	11.50	11.32	11.21
Denver	12.58	12.83	12.86	12.89	12.90	12.93	12.80	12.78	12.82	12.88	13.10	13.20	13.23	13.21	13.22	13.22
Detroit	11.85	11.91	11.96	12.00	11.98	11.89	11.85	11.75	11.69	11.57	11.75	11.78	11.75	11.77	11.80	11.90
Houston	10.29	10.27	10.37	10.37	10.48	10.55	10.58	10.50	10.58	10.70	11.00	11.03	11.15	11.09	11.11	11.07
Kansas City	7.03	7.09	7.04	6.98	6.97	6.93	6.91	6.80	6.87	6.90	6.95	7.00	7.04	6.99	7.00	7.00
Los Angeles	13.42	13.59	13.71	13.77	13.80	13.70	13.63	13.56	13.48	13.33	13.38	13.27	13.24	13.40	13.56	13.57
Milwaukee	10.65	10.70	10.72	10.77	10.72	10.71	10.62	10.53	10.54	10.58	10.65	10.70	10.72	10.80	10.81	10.82
Minneapolis	9.68	9.68	9.80	9.84	9.82	9.82	9.75	9.80	9.92	10.01	10.14	10.19	10.20	10.29	10.26	10.26
New Orleans	8.96	9.15	9.20	9.08	8.88	8.78	8.94	9.00	8.95	9.16	9.40	9.51	9.64	9.65	9.91	10.10
New York	18.95	18.98	19.00	19.00	18.87	18.91	18.87	19.02	19.10	19.20	19.40	19.53	19.25	19.57	19.53	19.52
Omaha	10.48	10.61	10.62	10.52	10.38	10.19	10.27	10.33	10.40	10.46	10.49	10.62	10.41	10.77	10.82	10.89
Philadelphia	14.14	14.18	14.22	14.27	14.25	14.22	14.10	14.05	14.20	14.16	14.23	14.25	14.20	14.27	14.36	14.31
Pittsburgh	11.76	11.88	11.90	11.98	11.98	11.93	11.94	12.00	12.05	12.20	12.28	12.39	12.50	12.72	12.73	
Richmond	10.88	10.92	10.90	10.97	10.98	11.00	11.03	11.08	11.11	11.18	11.20	11.17	11.15	11.03	11.00	10.88
Saint Louis	10.13	10.24	10.35	10.41	10.40	10.48	10.43	10.34	10.30	10.32	10.41	10.49	10.52	10.60	10.65	10.63
Salt Lake City	10.24	10.35	10.36	10.33	10.38	10.31	10.43	10.50	10.59	10.69	10.67	10.68	10.69	10.81	10.90	10.88
San Francisco	12.80	12.89	12.96	13.02	13.13	13.03	13.19	13.14	13.32	13.30	13.27	13.30	13.41	13.42	13.47	13.49
Seattle	10.61	10.81	10.89	11.00	11.02	11.10	11.37	11.38	11.28	11.27	11.32	11.27	11.28	11.27	11.37	11.46

RESIDENTIAL RENTS IN TYPICAL CITIES





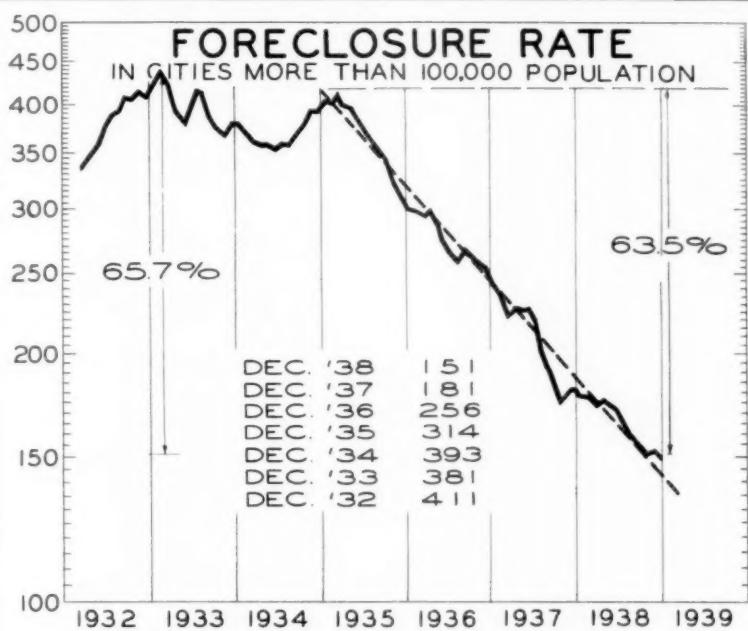
THE PRICE OUTLOOK FOR LUMBER

THE chart above is an attempt to find a statistical method which can be used with other factors in determining the probability of changes in lumber prices. The two black lines show the ratio of unfilled orders on a bi-weekly basis to total stock of both soft wood and hard wood, and the red line shows the fluctuations in wholesale lumber prices.

The ratio of unfilled orders to stocks increases when orders are coming in faster than finished lumber is being produced. If it increases rapidly for a relatively long period the outlook is for an increase in price. If, on the other hand, stocks are accumulating faster than unfilled orders, the ratio drops, and if the drop is large a price drop could be expected from the basic economic relationship.

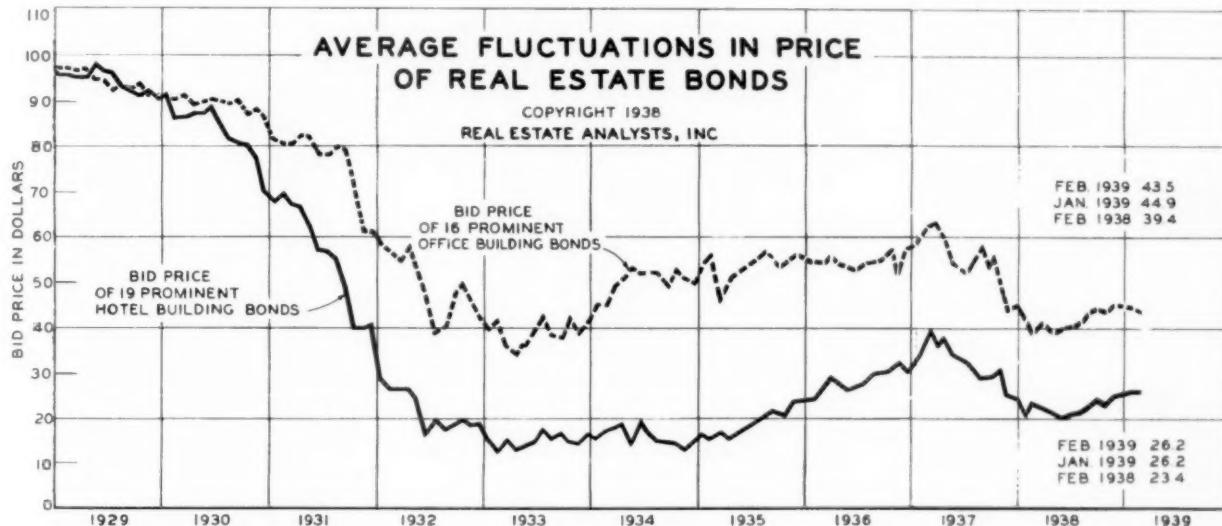
From the chart, we would arrive at the opinion that in soft wood no sizable increases can be expected in price in 1939, although a gradual increase may be possible. For hard wood, if the ratio continues upward during the next few months, we think there is some chance that prices would show a larger advance than prices on soft wood.

The unsatisfactory export market for lumber is another reason for believing that radical price increases during 1939 are not probable.



THE chart to the left shows the monthly fluctuations in the foreclosure rate in cities having more than 100,000 population. This chart is corrected for seasonal fluctuations, and is based on the compilations made by the HOLC. The dashed line in red shows the trend at which foreclosures have been dropping during the past four years. The figure for December, which is the last figure available shows a continuation of the downward trend after a slight interruption in November.

The dashed red line on the chart shows a drop of approximately 25% a year, and it will be noticed that the actual drop since the first part of 1935 has very closely approximated this percentage.



THE chart above shows the average fluctuations in the bid prices of office and hotel building bonds. It will be noticed that after dropping for a period of a year and a half, these bonds during the past seven or eight months have shown a gradual upward movement. The buildings used are only those on which quotations can be secured monthly. The office building list includes the following: Broadway Motors, Bryant Park, Bush Terminal, Carbide and Carbon, Chesebrough, Chrysler, Cleveland Terminal, Equitable (N. Y.), Graybar, Grant, Liggett, One LaSalle Street, Postum, Textile, Wanamaker (Phila.), Woodbridge. The hotel list includes the following: Bowman-Biltmore, Eastern Ambassador Hotel, Eppley Hotels, George Washington Hotels, Hotel Lexington, Hotel Sherman, Hotel St. George, LaSalle Hotel, Lord Baltimore, National Hotel of Cuba, Palace Hotel (San Francisco), Park Central Hotel, Pitts Hotel, Savoy-Plaza, Sevilla-Biltmore, Sherry-Netherland, Stevens Hotel, Waldorf-Astoria.